Preparing for the next economic collapse: should social insurance play a bigger role?

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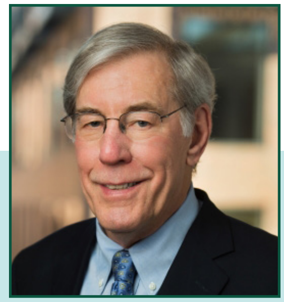
In the last decade and a half, the U.S. economy has experienced near-catastrophic collapses twice. The first, the Great Recession, was spurred by inadequate regulation of financial institutions and real-estate speculation; the second was brought on by public officials' decisions to curtail economic activity in response to the coronavirus pandemic. Policymakers responded to the challenges posed by these crises by enacting a number of new, ad hoc measures thrown together during the confusion of economic free falls and by modifying the eligibility and generosity of several existing safety net and social insurance programs. In both cases the responses were delayed by the inevitable wrangling over the appropriate size and duration of the rescue packages, disagreement over the programmatic vehicles through which assistance was to be provided, and clashes around which specific individuals, institutions and public entities should be eligible for the aid. Once these issues were resolved, a lack of accurate information needed to distribute assistance to all those eligible challenged full and timely implementations of assistance.

When the current crisis is under better control, policymakers should consider whether the experience of the past decade and a half is an aberration or the "new normal." Are sudden, deep and widespread economic collapses once in a lifetime events or likely to occur every decade or so? If the latter is more likely the case, the obvious next questions are whether we should take steps to better prepare for future occurrences and what that might entail. Should social insurance approaches play a bigger role in government's response?

While pandemics and widespread financial institution implosions are rare events, there are many other threats, each relatively unlikely, that could seriously undermine the nation's ability or desire to engage in normal economic activity for a prolonged period. For the most part these do not include natural catastrophes (earthquakes, hurricanes, droughts, floods, volcanic eruptions, etc.) which do not have national or international scope or significant duration. Rather the other threats are more likely to involve destruction perpetrated by rogue states and affiliated non-state terrorist groups. They could involve widespread sabotage of the electric grid or the water supply, destruction of the Internet or other widely used communication networks, compromises of the integrity of financial markets, germ warfare, or nuclear contamination.

The combined probabilities of these risks together with the huge and long-lasting economic and societal costs of deep economic contractions might justify preemptively adopting measures to shorten their durations and ameliorate their damage, which includes reduced long-run economic potential and



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the stunted lifetime opportunities of cohorts who enter the labor force during prolonged periods of slack.

While the federal government's responses to the Great Recession and the COVID-19 recession were significant, they were far from optimal. Overall, they took too long to enact and implement, created unnecessary uncertainty with respect to the magnitude and duration of assistance for beneficiaries, were underfunded and exacerbated partisan conflict.

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A MANDATORY RESPONSE

We could do better by preemptively authorizing a mandatory response to the next catastrophic downturn. This would involve several steps, the first of which would be to specify beforehand a set of objective conditions that would automatically activate an economic recovery effort. These would consist of national threshold measures of the level and change in employment, unemployment, income, and economic activity.

The second step would be to specify the specific programs and policies that would make up the recovery package designed to address the next catastrophic downturn. Drawing from recent experience, these might include such policies as an increase in the Medicaid matching rate (FMAP), supplemental unemployment compensation benefits, grants to all adults and children below specified income limits, assistance for subnational governments, and aid to small businesses.

A third step would be to establish numerical triggers that would automatically turn each element of the special assistance both on and off. This contrasts with the current practice of authorizing special benefits for fixed periods of time — e.g., through July 31 or until the end of 2020 — without knowing whether the conditions motivating the assistance will still be extant, significantly ameliorated or worsened by the termination date. Not only does the current practice create detrimental uncertainty and anxiety for beneficiaries, it exacerbates partisan conflict and gaming as the termination date approaches.

A final step would be to specify beforehand what temporary expansions, if any, would be made in program eligibility and benefits. These might include unemployment benefits for gig workers and independent contractors who ordinarily are not eligible for regular unemployment compensation, relaxed income limits and household composition rules for recipients of SNAP and subsidized housing benefits, or more flexible access to Affordable Care Act plans for those who lose their health insurance when they become unemployed.

This step would allow those responsible for administering the various programs the opportunity to develop the programmatic capability and informational infrastructure necessary to implement the new benefits in a timely manner.

The circumstances surrounding each catastrophic collapse of the economy are unique, which will lead some to argue that each rescue package should be designed anew. While that position has merit, recent experience suggests that there is a common set of measures with broad public support that are aimed at reducing individual hardship and boosting aggregate demand that should be implemented without delay. If this were done automatically, lawmakers could focus their attention on additional measures designed specifically to address the special aspects of the new crisis. For example, significant portions of the CARES Act and the other legislative responses to the 2020 collapse dealt with health policy and the legislation precipitated by the Great Recessions focused on shoring up financial institutions and housing markets. But crafting these new and often controversial measures should not, as has been the case recently, delay the basic relief. Furthermore, lawmakers would of course be free to fine-tune elements of the core measures if that would make them better fit the particular challenges of the then-current situation.

If lawmakers choose to preemptively enact a package of measures designed to combat future major economic collapses, there remains the question of how it should be structured. Would the response be stronger and gain broader public support if certain key elements were designed under social insurance principles?

ROLES FOR SOCIAL INSURANCE

Social Security, Unemployment Compensation, and Medicare have played significant roles in the most recent federal countercyclical efforts. During the Great Recession, the Social Security program served as a useful vehicle for conveying tax relief to workers through The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Public Law 111-312) which reduced OASDI payroll tax rates on workers by two percentage points for 2011. The 2020 CARES Act provided additional liquidity to employers by allowing them to defer payment of the employer portion of their OASDI payroll tax liability incurred between March 27, 2020, and December 31, 2020 until December 2021 and December 2022. Because the Treasury offset the full costs of these initiatives with general revenue transfers to the Trust Funds, neither initiative affected Social Security's financial position.

Modifications in Unemployment Compensation, usually taking the form of extending, at federal cost, the duration of benefits, have been a component of many federal responses to economic weakness. In addition to a 13-week extension of benefits (Pandemic Emergency Unemployment Compensation) lasting through the end of the year, the response to the coronavirus recession included a significant expansion of coverage, extending benefits to many who are not eligible for regular state-administered unemployment compensation because they are self-employed, independent contractors, or have inadequate work histories (Pandemic Unemployment Assistance). CBO has estimated that some 5 million workers will obtain coverage under this provision. An even more radical policy in the CARES Act is the additional $600 federal payment added onto every weekly state unemployment check through July 2020.

Not surprisingly given the cause of the current economic collapse, Medicare has played a role in the federal response. To help hospitals and other providers, Medicare payment rates for COVID-19-related as well as some other interventions have been raised and sequestration cuts have been deferred. To help patients, benefit coverage — particularly telehealth visits — have been expanded and patient cost-sharing for some therapies have been reduced.

Increasing the importance of social insurance could be accomplished either in an incremental fashion or through a radical redesign of how the nation deals with major economic downturns. An incremental approach would involve adopting modest changes to existing social insurance programs such as Gene Steuerle's proposal that would make it easier for Social Security-eligible individuals under the full retirement age who find themselves unemployed to cycle on and off Social Security and be allowed to receive partial benefits.[2] Similarly, workers age 62 or more who lose their employer provided health insurance could be offered temporary Medicare coverage even though they had not reached their 65th birthday if that was preferable to coverage through an ACA plan. In response to the increase in Disability Insurance applications that occurs during periods of extreme unemployment, speedy provisional approval might be granted to certain classes of applicants.

A more radical social insurance-type approach would be to establish a trust fund dedicated to a core set of programs designed to respond only to major economic contractions. As suggested earlier, the parameters of these programs and the conditions under which they would be activated would be established in legislation enacted when the trust fund was created. The core set of programs should be limited and chosen after objectively evaluating the effectiveness of the measures used to combat the Great Recession and the coronavirus recession. The core set might include cash grants to individuals like the $1,200-per-adult Recovery Rebates; an unemployment compensation enhancement package that extended the duration of benefits, expanded eligibility to defined uncovered groups and supplemented state-determined payments; a small-business loan program like the Paycheck Protection Program; and a facility that provided grants or loans to subnational units of government. The trust fund would be supported by a portion of the receipts from some new broad-based tax like a value-added levy or a carbon tax and its reserves would be capped.

While the obstacles that this proposal would face come readily to mind, it is worth concluding by listing its possible advantages. First and foremost, it would speed the implementation of significant measures that could reduce the duration and severity of the economic collapse. Second, it would reduce the uncertainty among individuals and businesses concerning what types of assistance would be available when a deep downturn occurred and how long the assistance would last. Third, agencies responsible for administering the assistance would be better prepared to do their jobs efficiently and accurately, reducing both confusion and fraud. Fourth, partisan wrangling over the details of what should be a unifying national effort to save the economy would be reduced. And finally, the public and businesses, knowing that they would be the beneficiaries at a time of severe distress of the taxes paid into the trust fund, might reduce their aversion to policies that would improve, on average, the nation's fiscal position.

ENDNOTES

1 The views expressed in this article should not be attributed to the Urban Institute, its sponsors, staff, or trustees.

2 Eugene Steuerle, "The COVID-19 Crisis Reveals the Need to Let Eligible Workers and Retirees Take Partial Social Security Benefits," *The Government We Deserve* (https://blog.governmentwedeserve.org/), June 10, 2020.